



## **DesertLink, LLC**

2024 Projection Stakeholder Meeting

November 9, 2023

# Outline

---

- Introductions
- Background
  - Company and Project
  - Formula Rate
- 2024 Projection
  - 2024 Projection
  - True-up Adjustment
  - Weighted Average Cost of Capital
- Discussion

# Background

---

Company, Project, and Formula Rate

# Background – General

---

## Overview of the Company and the Project

- DesertLink is a transmission-only company initially formed to develop, own, and operate the Harry Allen to Eldorado 500 kV Transmission Line Project in Nevada.
- The Project consists of a newly constructed 500 kV transmission line (between the existing Harry Allen and Eldorado substations, located northeast and southeast, respectively, of Las Vegas) along with series compensation
- This Project is subject to certain cost cap, ROE, and equity capital structure commitments per DesertLink's Approved Project Sponsor Agreement (APSA) with CAISO.
- More information is available at [desertlinktransmission.com](http://desertlinktransmission.com)

# Background – Regulatory

---

## Selected Regulatory Filings and Orders

- August 19, 2016 – FERC approves certain transmission rate incentives requested by DesertLink in its May 2016 petition in Docket No. EL16-68:
  1. Regulatory asset incentive and accrual of carrying charges;
  2. 100% recovery of prudently-incurred costs associated with abandonment of the Project;
  3. 50 bps RTO participation adder (subject to 9.8% maximum ROE);
  4. Hypothetical capital structure (50% debt/50% equity) prior to commercial operation, then a 50% equity cap.
- October 18, 2016 – DesertLink files a transmission owner tariff (TO Tariff) in Docket No. ER17-135 to be applicable upon becoming a participating transmission owner in CAISO.
  - October 31, 2017 – the Commission sets proposed formula rate, protocols, and ROE for hearing and settlement procedures.
  - April 18, 2018 – Parties reach settlement agreement
  - May 24, 2018 – Commission approval of settlement agreement
- March 21, 2022 – FERC accepts formula revisions submitted April 16, 2020, and amended December 23, 2021, to comply with FERC Order No. 864 (ADIT) in Docket No. ER20-1573.
- May 2, 2022 – FERC accepts formula revisions submitted April 16, 2022, and amended March 16, 2022, to enable recovery of gross receipts taxes in Docket No. ER22-1050.

# Background – Cost Commitments

---

## Key Provisions

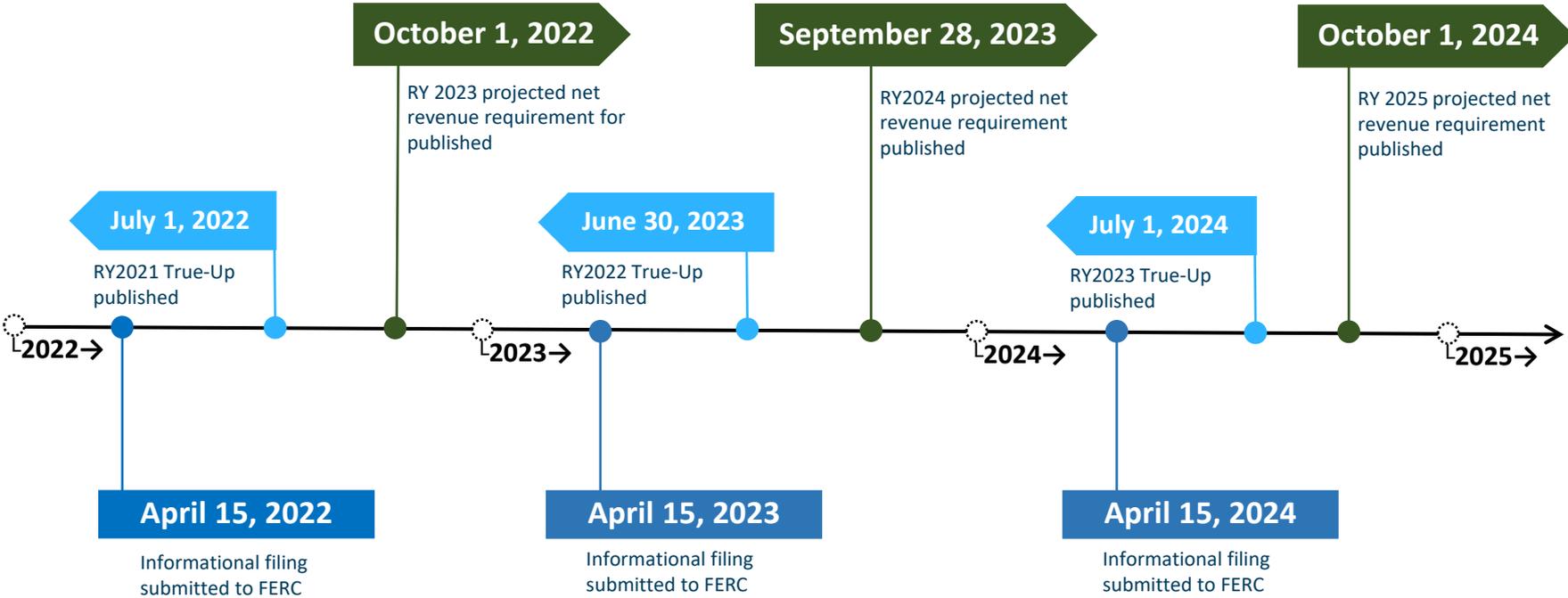
DesertLink made certain cost commitments for the Harry Allen to Eldorado Project

- **Cost Cap**<sup>1</sup> – DesertLink’s Project costs may not exceed the binding cost cap of \$145.5M, subject to certain exclusions.
- **ROE Cap**<sup>1</sup> – During the depreciable life of the Project, DesertLink may not recover more than 9.8%, inclusive of adders.
- **Equity Cap**<sup>1</sup> – The Project is subject to an equity percentage cap of 50%.

<sup>1</sup> As defined in and subject to the terms of the APSA between DesertLink and CAISO.  
Refer to Attachment A included in the Annual Update package for additional details.

# Formula Rate Timeline

## General Update Process



# Formula Rate Timeline

---

## Selected milestones

- December 8, 2022 – Informational update submitted in TRBAA Docket No. ER23-206
- April 12, 2023 – Informational filing submitted to FERC in Docket No. ER23-1651
- April 17, 2023 – 2022 FERC Form No. 1 submitted to FERC
- June 27, 2023 – 2022 FERC Form No. 1 resubmitted to FERC
- June 30, 2023 – 2022 Annual Update published
- August 3, 2023 – Stakeholder meeting for 2022 Annual Update
- September 28, 2023 – Publication of 2024 Projection
- October 31, 2023 – TRBAA filing in Docket No. ER24-264
- November 9, 2023 – Stakeholder meeting for 2024 Projection
- December 1, 2023 – Last day to incorporate corrections into 2024 Projection
- January 1, 2024 – Scheduled end of information request period

# Annual Projected Net Revenue Requirement

---

2024 Rate Year

# Projected Revenue Requirement Summary

## 2024 Rate Year

Appendix III Item	2024 Projection
Average Rate Base	\$ 180,755,183
Rate of Return <sup>1</sup>	6.22%
<b>Return on Rate Base</b>	<b>11,251,175</b>
Income Taxes	3,537,536
<b>Total Return &amp; Taxes</b>	<b>14,788,711</b>
Operating Expenses:	
O&M and A&G Expenses	2,825,038
Depreciation Expenses	3,967,554
Non-income taxes	1,199,281
<b>Total Operating Expenses</b>	<b>7,991,873</b>
<b>Gross Revenue Requirement</b>	<b>22,780,584</b>
Less: Revenue Credits	0
Plus: True-up Adjustment with Interest <sup>2</sup>	971,415
<b>Net Revenue Requirement</b>	<b>23,751,998</b>

<sup>1</sup> Weighted Average Cost of Capital (WACC) calculation for projection provided in a separate slide.

<sup>2</sup> Refer to Slide 10, 2022 True-Up Adjustment.

# True-up Adjustment

Calculated for 2022 Rate year

<b>True-Up Adjustment and Interest Calculation<sup>1</sup></b>	<b>Published</b> June 30, 2023
Actual 2022 Net Annual Revenue Requirement (Appendix III, Page 1, Line 9)	\$ 24,576,982
Projected 2022 Net Annual Revenue Requirement (Projection Appendix III: Page 1, Line 1 minus Page 1, Line 6)	\$ 23,693,842
<b>Under/(Over) Projection of Revenue Requirement</b>	<b>\$ 883,140</b>
Monthly Interest Rate	0.387%
Interest For 24 Months	\$ 88,275
<b>Total Under/(Over) Projection Including Interest</b>	<b>\$ 971,415</b>

<sup>1</sup>Refer to Attachment 6 (Interest on True-up), and Attachment 6a (Interest Rate) in the published Annual Update for more detail.

# Weighted Average Cost of Capital

---

## WACC Calculation

WACC Element	Weight	Cost	Weighted	
Long Term Debt	50%	2.65%	1.32%	
Preferred Stock	-	-	-	
Common Stock	50%	9.80%	4.90%	
Total			6.22%	= Return

Refer to Attachment 5 (Return on Rate Base worksheet) in the published 2024 Annual Projection for more detail.

# Discussion

---

Formula rate materials are posted online:

[desertlinktransmission.com/documents](https://desertlinktransmission.com/documents)

Direct inquiries, information requests, and challenges to:

[rates@desertlinktransmission.com](mailto:rates@desertlinktransmission.com)

# Disclaimer

---

Notwithstanding requirements and terms defined in DesertLink, LLC's (DesertLink) formula rate implementation protocols and terms commonly used in FERC ratemaking (e.g., 'projected', 'projection'), this document and any related discussions may contain certain statements that describe DesertLink management's beliefs concerning future financial performance, future business conditions and prospects, growth opportunities and the outlook for the electric transmission industry based upon information currently available. Such statements are "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts, and are often identified by words such as "anticipates", "believes", "intends", "estimates", "expects", "projects", "projected", "shall", "will", "should", "could", "may" and similar phrases. Such forward-looking statements are based upon assumptions management believes are reasonable. Such forward-looking statements are subject to important risks, uncertainties and other factors which could cause actual results, performance and achievements to differ materially from those expressed in, or implied by, these statements. These important risks, uncertainties and other factors include: future economic conditions in regional, national and international markets and their effects on prices, costs and availability of required goods and services; market perception of the energy industry and DesertLink; changes in business strategy, operations or development plans; the outcome of contract negotiations for goods and services; effects of current or proposed state and federal legislative and regulatory actions or developments, including deregulation, re-regulation and restructuring of the electric utility industry; decisions of regulators regarding rates that DesertLink may charge; adverse changes in applicable laws, regulations, rules, principles or practices governing tax, accounting and environmental matters; financial market conditions and performance, including changes in interest rates and credit spreads and in availability and cost of capital; impairments of long-lived assets or goodwill; credit ratings; inflation rates; effectiveness of risk management policies and procedures and the ability of counterparties to satisfy their contractual commitments; impact of terrorist acts, including cyber terrorism; and weather conditions, including weather-related damage. Given these uncertainties, you should not rely on forward-looking information.